

COMPLIANCE AUDIT

Firefighters Relief Association of Upper Merion Township, Pennsylvania 19406

Montgomery County

For the Period

January 1, 2016 to December 31, 2017

May 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Ms. Shannon Schreur, President
Firefighters Relief Association of
Upper Merion Township,
Pennsylvania 19406
Montgomery County

We have conducted a compliance audit of the Firefighters Relief Association of Upper Merion Township, Pennsylvania 19406 (relief association) pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2016 to December 31, 2017.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain an independent confirmation of a portion of the investment balance directly from the financial institution. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2017, the relief association had an investment balance of \$1,385,977, we were not able to verify a portion of this investment balance.


Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2016 to December 31, 2017, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the finding listed below and discussed later in this report.

Finding – Inadequate Documentation Of Mortgage

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

May 7, 2018


EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of relief associations to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

| <u>Municipality</u> | <u>County</u> | <u>2016</u> | <u>2017</u> |
|-----------------------|---------------|-------------|-------------|
| Upper Merion Township | Montgomery | \$334,539 | \$315,259 |

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

King of Prussia Volunteer Fire Company

Lafayette Ambulance Squad

Swedeland Volunteer Fire Company

Swedesburg Volunteer Fire Company

FIREFIGHTERS RELIEF ASSOCIATION OF UPPER MERION TOWNSHIP,
PENNSYLVANIA 19406
FINDING AND RECOMMENDATION

Finding – Inadequate Documentation Of Mortgage

Condition: On August 1, 2017, the relief association agreed to loan the Swedesburg Fire Company \$85,000; however, we could not verify whether the mortgage was adequately secured due to a lack of supporting documentation.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(1) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any form of investment named in 20 Pa.C.S. Ch. 73 (relating to municipalities investments). First mortgages insuring repayment of loans by relief associations shall provide for a minimum interest payment of 3% and not exceed 80% of the appraised value of real property covered by the mortgage.

Cause: Relief association officials indicated that they were unaware of the Act 118 provisions concerning the security requirements for mortgages.

Effect: Since the relief association officials could not provide documentation of their first lien position or the appraised value of the property, this mortgage is not considered to be secured as required by Act 118. Failure to properly secure the mortgage places the investment at greater risk.

Recommendation: We recommend that the relief association officials provide verification of first lien position and provide documentation of the appraised value of the property. If such documentation cannot be acquired, we recommend that the mortgage be immediately liquidated. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

FIREFIGHTERS RELIEF ASSOCIATION OF UPPER MERION TOWNSHIP,
PENNSYLVANIA 19406
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

| | |
|---------------------------------|---------------------|
| Cash | \$ 300,664 |
| Fair Value of Investments | 1,385,977 |
| Book Value of Other Investments | <u>83,826</u> |
| Total Cash and Investments | <u>\$ 1,770,467</u> |

FIREFIGHTERS RELIEF ASSOCIATION OF UPPER MERION TOWNSHIP,
PENNSYLVANIA 19406
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

| | |
|-------------------------------|----------------------------|
| Benefit Services: | |
| Insurance premiums | \$ 227,751 |
| Death benefits | 2,000 |
| Relief benefits | 15,821 |
| Total Benefit Services | <u>\$ 245,572</u> |
| Fire Services: | |
| Equipment purchased | \$ 430,193 |
| Equipment maintenance | 65,480 |
| Training expenses | 47,126 |
| Total Fire Services | <u>\$ 542,799</u> |
| Administrative Services: | |
| Officer compensation | \$ 3,600 |
| Other administrative expenses | 2,385 |
| Bond premiums | 1,592 |
| Total Administrative Services | <u>\$ 7,577</u> |
| Total Investments Purchased | <u>\$ 563,259</u> |
| Other Expenditures: | |
| Unauthorized expenditures* | <u>\$ 360</u> |
| Total Expenditures | <u><u>\$ 1,359,567</u></u> |

* During 2016 and 2017, the relief association made an insignificant disbursement in the amount of \$360 for food for the relief association meetings which was not authorized by Act 118. We disclosed this issue to relief association officials on March 19, 2018.

FIREFIGHTERS RELIEF ASSOCIATION OF UPPER MERION TOWNSHIP,
PENNSYLVANIA 19406
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Firefighters Relief Association of Upper Merion Township, Pennsylvania 19406 Governing
Body:

Ms. Shannon Schreur
President

Mr. Gerardo Recupido
Vice President

Ms. Melissa Guzewicz
Secretary

Mr. Mark Forster
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance
tax monies to this relief association:

Mr. David G. Kraynik
Secretary
Upper Merion Township

This report is a matter of public record and is available online at www.PaAuditor.gov. Media
questions about the report can be directed to the Pennsylvania Department of the Auditor General,
Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to:
news@PaAuditor.gov.